

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

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R 280741Z MAY 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 5842

INFO AMCONSUL BRISBANE

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AMCONSUL MELBOURNE

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AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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SYDNEY ALSO PASS TRADE CENTER

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SUBJ: AUSTRALIAN ECONOMIC DEVELOPMENTS

REF: (A) MELBOURNE 0648 NOTAL (B) MELBOURNE 0521 NOTAL

(C) CANBERRA 3366 NOTAL

1. SUMMARY: AS GOA STARTS PRELIMINARY PLANNING OF NEXT YEAR'S
BUDGET, IMPORTANT CURRENT DEVELOPMENTS IN FIELDS AS DIVERSE AS
LABOR, INDUSTRY, AGRICULTURE AND TAXATION POSE INFLATIONARY
POSSIBILITIES WHICH UNDERLINE DIFFICULTIES OF CURRENT

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AUSTRALIAN ECONOMIC SITUATION.

2. EARLY THIS WEEK POWERFUL METAL WORKING TRADE UNIONS (REF A) REJECTED RECENT AUSTRALIAN ARBITRATION COMMISSION DECISION TO DEFER THEIR WAGE INCREASE DEMANDS FOR CONSIDERATION IN JULY. THEY ARE DEMANDING WAGE INCREASES EXCEEDING 10 PCT. IN ADDITION TO THE RECENT GENERAL INDEXATION GRANTED BY ARBITRATION COMMISSION (REF B) PLUS SHORTER HOURS, INCREASED PREMIUM VACATION PAY, HIGHER OVERTIME RATES AND NEW MEDICAL BENEFITS. THEY PLAN 24-HOUR NATIONAL STRIKE JUNE 8 AND SUBSEQUENT OVERTIME BAN THEREAFTER WITH THREAT OF ROLLING STRIKES IN SUBSEQUENT WEEKS. AUSTRALIAN RAILWAY UNION HAS DECIDED MAY 27 TO JOIN JUNE 8 STRIKE. ANY SIGNIFICANT SUCCESS BY METALWORKERS WILL THREATEN COLLAPSE OF RECENT WAGE INDEXATION MEASURE ON WHICH GOA RELYING HEAVILY TO MODERATE INFLATIONARY WAGE PRESSURES.

3. AUTOMOBILE INDUSTRY - FOLLOWING DECEMBER 1974 THREAT OF MASS LAYOFFS, INDUSTRY RECEIVED IMPRESSIVE PACKAGE OF SPECIAL GOVERNMENTAL ASSISTANCE INCLUDING TEMPORARY REDUCTION OF SALES TAXES, NEW TARIFFS AND IMPORT QUOTAS AND MODIFICATION OF PROPOSED INDIVIDUAL INCOME TAX PROVISIONS ON EXECUTIVE CARS WHICH WOULD HAVE CUT IMPORTANT FLEET SALES. INDUSTRY NOW FACING GRADUAL RESTORATION OF SALES TAX LEVEL, STAGED OVER SEVERAL MONTHS. BRISK SALES ACHIEVED DURING PAST MONTHS HAVE REDUCED INVENTORIES BUT ARE GENERALLY REGARDED AS BORROWING SALES FROM BALANCE OF 1975 AND 1976. SALES NOW FALLING SHARPLY UNDER IMPACT OF RISING TAX AND PERIODIC MANUFACTURERS PRICE INCREASES. CONTINUATION THIS TREND LIKELY TO PRODUCE NEW CRISIS IN THIS BASIC INDUSTRY AND ITS WIDESPREAD DOMESTIC SUPPLIER INDUSTRIES LATER IN 1975.

4. WOOL FLOOR PRICE - REF (C) DESCRIBED MAY 27 CAUCUS OVERTURN OF CABINET'S UNSUCCESSFUL ATTEMPT TO REDUCE FLOOR PRICE FOR WOOL. CABINET INITIATIVE VIEWED AS FIRST IMPORTANT STEP TO REDUCE GOVERNMENT SPENDING AND ITS RAPID DEMISE IS NOT A PRECEDENT FOR AUSTERITY IN OTHER HARD BUDGET DECISIONS WHICH LIE AHEAD.

5. TAX INDEXATION - GOA RECEIVED MAY 26 REPORT OF MATTHEWS COMMISSION ON QUESTION OF INCOME TAX INDEXATION. COMMISSION STRONGLY RECOMMENDED INDEXATION OF BOTH CORPORATE AND INDIVIDUAL INCOME TAX CITING DISPROPORTIONATE WAGE INCREASES REQUIRED TO MAINTAIN LEVEL NET REAL INCOME DURING CURRENT INFLATION AND ADVERSE LIMITED OFFICIAL USE

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DISTORTION OF BUSINESS FINANCE RESULTING FROM INFLATED INVENTORY VALUATION AND UNREALISTIC UNDER-DEPRECIATION OF CAPITAL ASSETS. ADOPTION OF MATTHEWS RECOMMENDATIONS WOULD IMPORTANTLY DEPRESS FUTURE TREND OF PUBLIC REVENUE. GIVEN EXTREME DIFFICULTY GOVERNMENT FACES IN REDUCING EXPENDITURE SIDE OF BUDGET, IT SEEMS PROBABLY THIS APPROACH TO WAGE RESTRAINT COULD BE ACCEPTED ONLY AT PRICE OF SHARP INCREASE DEFICIT FINANCING, PROBABLY EXCEEDING THE APPROXIMATELY \$A3 BILLION DEFICIT EXPECTED IN CURRENT YEAR.

6. EMBASSY COMMENT: WHILE THESE ARE FAR FROM ONLY ECONOMIC PROBLEMS FACING GOA, THEIR CONVERGENCE IN ONE WEEK DRAMATICALLY ILLUSTRATES THE DILEMMAS FACING GOA IN ITS ATTEMPT TO STIMULATE EMPLOYMENT, MAINTAIN AGRICULTURAL INCOME, REDUCE INFLATIONARY WAGE PRESSURES AND AT THE SAME TIME HONOR ITS AMBITIOUS SOCIAL WELFARE COMMITMENTS. DESPITE RECENT OPTIMISM THAT THE RATE OF UNEMPLOYMENT INCREASE IS SLOWING, THE ECONOMY IS STILL IN A DEEP RECESSION. THE MOST RECENT UNEMPLOYMENT DATA SHOW SEASONALLY ADJUSTED UNEMPLOYMENT AT A 25-YEAR HIGH OF 4.72 PCT. AND THE APRIL CPI RESULTS SHOWED A RECORD PRICE RISE OF 17.6 PCT. DURING THE YEAR ENDING MARCH 31. GIVEN THIS SITUATION PROSPECTS FOR EARLY SOLUTION OF THE UNEMPLOYMENT-INFLATION DILEMMA ARE NOT BRIGHT.
GREEN

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